



Melton Borough Council
Audit results report

Year ended 31 March 2017



Private and Confidential

8 September 2017

Dear Governance Committee Members

We have substantially completed our audit of Melton Borough Council (the Council) for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, before the statutory deadline of 30 September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Governance Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Stephen Clark
Partner

For and on behalf of Ernst & Young LLP
United Kingdom

Contents

01 Executive Summary



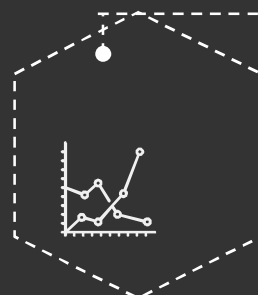
02 Areas of Audit Focus



03 Audit Report



04 Audit Differences



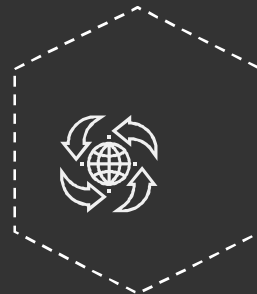
05 Value for Money



06 Other Reporting Issues



07 Assessment of Control Environment



08 Appendices



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated September 2015)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Governance Committee, other members of the Council and management of Melton Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance Committee, other members of the Council and management of Melton Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance Committee, other members of the Council and management of Melton Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the 7 February 2017 Governance Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £582k. We reassessed this using the actual year-end figures, which has increased this amount to £604k. The threshold for reporting audit differences increased from £29k to £30k. The basis of our assessment of materiality has remained consistent with prior year at 2% of gross expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. For these areas we have set materiality as £1k or to the extent and error may change relevant reported bandings.
- Related party transactions. For any errors identified, we have considered the concept of the materiality of transactions and balances as would be relevant to the related individual or organisation.
- Audit fees. A materiality of £1k has been applied.
- Members' allowances. A materiality of £1k has been applied.

Status of the audit

We have substantially completed our audit of Melton Borough Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at section 3. However until work is complete, further amendments may arise:

- Conclude our work on property, plant and equipment, reserves and cash flow statement
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- submission of the Whole of Government Accounts return to the National Audit Office (NAO).



Executive Summary

Executive summary (continued)

Status of the audit (continued)

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

We identified four unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Governance Committee and included in the Letter of Representation. The impact of unadjusted audit difference is £78k. We agree with management's assessment that the impact is not material.

We identified a small number of presentational and reclassification adjustments which have been adjusted by management. There is no impact on the reported financial performance of the Council. Details can be found in Section 4 Audit Differences.



Executive Summary

Executive summary (continued)

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Melton Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Governance Committee.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we identified no significant risks relating to Melton Borough Council.



Executive Summary

Executive summary (continued)

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

During the audit, we have not identified any significant deficiencies in internal control:

During the audit we identified improvement recommendations for management's financial processes these have been further considered at section 7 assessment of control environment.

Independence

Please refer to Appendix B for our update on Independence.



02 Areas of Audit Focus





Areas of Audit Focus

Audit issues and approach: Significant Risk

Revenue Recognition

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

What is the risk?


Risk of fraud in revenue recognition
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.

- ▶ For Melton Borough Council we consider that this risk presents itself in the fees, charges and other service income.

In this public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.

- ▶ For Melton Borough Council we consider that this risk presents itself in 'other service expenses'

 In Audit Report

 Significant Risk

What did we do?

- We reviewed revenue and expenditure recognition policies through testing sample of in year revenue & expenditure transactions, including debtor and creditor balances and cut-off at year-end;
- We reviewed accounting estimates for evidence of management bias. This included testing of expenditure accruals and provisions. In particular we challenged management's basis for the calculation of the business rates appeals provision and calculation of bad debt provisions. Whilst we consider that both are not materially misstated we identified a misstatement in the business rates appeals provision of £129k (see section 4 – audit adjustments for further detail) and have made a recommendation regarding the calculation of the bad debt provisions (see section 7 – Assessment of control environment); and
- We reviewed the financial statements for evidence of significant or unusual transactions. No such transactions were identified



Areas of Audit Focus

Audit issues and approach: Significant Risk

Management override


What are our conclusions?


We have not identified any material weaknesses in controls or evidence of material management override.
We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council 's normal course of business

What is the risk?

Risk of management override
As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

 In Audit Report

 Significant Risk

What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We obtained a full list of journals posted to the general ledger during the year, and analysed them to identify any unusual journal types or amounts. We then tested a sample of these journals and tested them to supporting documentation;
- We reviewed accounting estimates for evidence of management bias as identified in the response to revenue recognition; and
- We evaluated the business rationale for any significant unusual transactions
- We reviewed the accounting adjustments processed and disclosed in the Movement in Reserves Statement and supporting notes.



Areas of Audit Focus

Audit issues and approach: Significant Risk

Valuation of property, plant and equipment

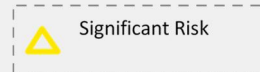
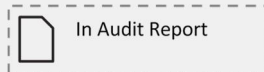
What are our conclusions?

The Council's PPE is valued by the District Valuation Office (DVO) and Innes England.

- We have reviewed the instructions and data provided to the valuer by the Council.
- We have reviewed the classification and valuation methods used and identified no issues.
- We have obtained input from EY's own valuation experts to review the central assurances received from Gerald Eve on the work of the DVO and their qualifications. We have followed up all recommendations and have no issues to report.

What is the risk?

In 2016/17 the Authority is using the services of District Valuer and Innes England, both RICS qualified Valuers to undertake a revaluation exercise on land and buildings (both HRA and General fund) as at 31 March 2017. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be an audit risk for 2016/17



What did we do?

- We engaged our property team experts to undertake a review of the work of the District Valuer, to ensure the scope of the work undertaken over the HRA assets was in line with expectations.
- Assessed whether the scope of work undertaken by the valuer was reasonable.
- Reviewed the terms of engagement with the valuer to ensure compliance with the Authority's accounting policies.
- We reviewed the asset valuations, their valuation basis, and the assumptions behind them.
- We evaluated whether the substance of the expert's findings is appropriately reflected in the financial statements. This included assessing whether movements in valuations were correctly reflected in the associated reserves and or Income & Expenditure.
- Considered the accuracy and completeness of the source documents used by the valuer, this included undertaking a review of the accuracy of the sizes of land and buildings against Council records.



Areas of Audit Focus

Audit issues and approach: Significant Risk

Revaluation reserve

What are our conclusions?

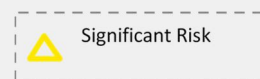
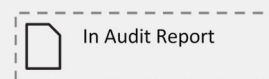
The early work carried out identified the Council's revaluation reserve and capital adjustment account had been overstated by £27m, the in year effect to the CIES was £17.2m, the remainder effecting prior years as explained at Note 38 of the updated the accounts prior to publication.

We have reviewed the resultant prior period adjustment made to the accounts and no further issues noted. There is no impact on the council's general fund balance.

We recommended the Council carries out an exercise to split the revaluation reserve by property to enable yearly upward/downward revaluations to be appropriately recognised in accordance with the Code of Audit Practice, and that this analysis be maintained going forward.

What is the risk?

In our 2015/16 audit results report we reported an issue with respect to the Council's record keeping for the Housing stock. The Revaluation records are not maintained on an individual asset basis. This is a requirement of the Code of Audit Practice. The impact of not doing this is that the Council is unable to ascertain when charges should be made against the Comprehensive Income and Expenditure Statement (CIES) in the case of a downward revaluation or impairment. There is also a risk the council is not able to ascertain previous impairments charged to the CIES for HRA assets and whether previous impairments should be reversed as a result increases in value to the HRA assets.



What did we do?

- We carried out early work over the accounting entries for the valuations carried out during 2016/17 to gain assurance over the accounting entries to the revaluation reserve and CIES.
- During the year, there was a change in the social housing factor (SHF), used to value the housing properties as at 1/4/16, increasing the factor from 34% to 42%, we reviewed the SHF was accurately applied to the assets.
- As part of our work we highlighted to the council that in 2010/11 when the SHF was last revised, the SHF was reduced to 34% from 50%, and the result was to decrease the value of the HRA assets, and in the case of Melton Borough Council the HRA assets were reduced in value by £27m and this amounts was charged to the CIES, Therefore any gains as a result of the increase in SHF should be used to reverse out the impairments previously charged to the CIES.
- We reviewed the additional work carried out by the council to update the accounts reversing out previous impairments charged made to the CIES.
- We reviewed the accuracy of the accounting entries for the HRA assets which had a downward revaluation in the year.



Audit issues and approach: Other Risk

Financial statements presentation

What are our conclusions?

Subject to presentational changes identified during the audit which have been corrected by management the Council has presented the CIES and expenditure and funding analysis in line with Code guidance.

We have no further findings to report.



In Audit Report

What is the risk?

Expenditure and funding analysis and Comprehensive income and expenditure statement

Amendments have been made to the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* (the code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the '*Telling the Story*' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the code has required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.

The presentation changes and requirement for restatement result in increased risk of error.

What did we do?

- We reviewed the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code;
- We reviewed the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and
- We agreed restated comparative figures back to the Council's segmental analysis and supporting working papers.



Audit issues and approach: Other Risk

Accounting for Pension Liability

What are our conclusions?

Based on completion of the specified procedures we have identified:

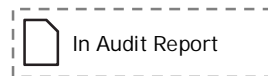
- 1) The auditors of the Leicestershire Pension Fund identified an error over the valuation of the investments held within the pension fund, the impact of the error is to increase the asset values used for the valuation of Melton Borough Council pension liability as at 31 March 2017 by £51k.
- 2) The pension cost was understated by £34k. The impact of the error is to increase the pension liability.

The overall impact on the accounts is to reduce the pension liability by £17k. There is no impact on the council's general fund balance. Further details at section 4 – unadjusted errors. Our internal expert has confirmed that the assumptions used by the actuary are consistent with their expectations and within acceptable ranges.

What is the risk?

Funding of the Council's participation in the local government pension scheme will continue to have an impact on both Council cash flows and balance sheet liabilities.

The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions could have a material impact on the balance sheet.



In Audit Report

What did we do?

- Reviewed the output of the report from the Council's actuary.
- Reviewed the assumptions used by the actuary to determine whether they are in our expected range.
- Tested the journal entries for the pensions transactions to check that they have been accurately processed in the accounts



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MELTON BOROUGH COUNCIL

Opinion on the Council's financial statements

We have audited the financial statements of Melton Borough Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 41,
- the Statement of Accounting policies on pages 64 to 73,
- the Expenditure and Funding Analysis on page 8,
- Housing Revenue Account and related notes 1 to 14, and
- Collection Fund and related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Melton Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director and auditor

As explained more fully in the Statement of Responsibility for the Statement of Accounts set out on page 2, Corporate Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Melton Borough Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Annual Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



Draft audit report (continued)

Our opinion on the financial statements

Conclusion on Melton Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, Melton Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.



Audit Report

Our opinion on the financial statements

Certificate

We certify that we have completed the audit of the accounts of Melton Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Stephen Clark (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Birmingham
19 September 2017



04 Audit Differences





Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We have included all known amounts greater than £30k relating to Melton Borough Council in our summary of misstatements below.

We highlight the following misstatements in the financial statements or disclosures identified during the audit. These have been corrected by management and do not impact the reported financial performance of the Council:

- £4k re-classification of the member allowances note, to separate the special responsibility allowance which was included within the expenses line.
- The grant income note was updated to include disclosure of the housing benefit subsidy credited to services of £8.35m (2015/16 £8.76m) and housing benefit administration grant credited to services of £120k (2015/16 £145k).
- An additional note was included to explain the restatement of the CIES and explanation of the expenditure and funding analysis note. There were minor update to the narrative statement, and notes to the accounts which included leases, pension liabilities, contingent liabilities and notes to the collection fund.
- The financial instruments note was updated to accurately include / exclude amounts meeting the financial instruments definition, the impact of this was to increase loans and receivables (short term debtors) by £2.27m (2015/16 £2.52m), and Financial liabilities carried at contract amounts (short term creditors) decreased by £1.04m (2015/16 £0.79m).

There were four uncorrected misstatements as follows:

- 1) The auditors of the Leicestershire Pension Fund identified an error over the valuation of the investments held within the pension fund, the impact of the error is to increase the asset values used for the valuation of Melton Borough Council pension liability as at 31 March 2017 by £51k, the impact on the accounts is to reduce the overall the pension liability and amount charged to the pension reserve by the same amount.
- 2) The pension cost for the year disclosed was understated by £34k, the impact on the accounts is to increase the overall the pension liability and amount charged to the pension reserve by the same amount.
- 3) The method used to calculate the provision for Business rates appeal by the council is not consistent with our expectation, the estimate is overstated by £321k, the effect to the Council's accounts is to overstate provisions by £129k (40% share) and understate the business rates income by the same amount.
- 4) As part of our testing of creditors, the Council were unable to evidence the inclusion of two creditors, one of £95 for water liability and £1000 electricity liability, as a result we have extrapolated the error identified over the creditor balance, and the projected error is £51k.



Audit Differences

Audit differences (continued)

Summary of unadjusted differences

We highlight the following misstatements in the financial statements and/or disclosures which were not corrected by management. We ask you to correct these uncorrected misstatements or give a rationale as to why they have not been corrected. This should be considered and approved by the Governance Committee and included in the Letter of Representation:

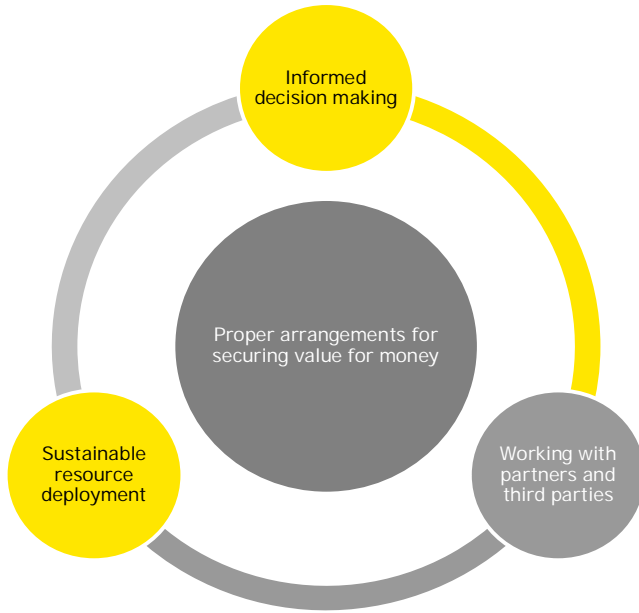
Item of account description 31 March 2017	Comprehensive Income and Expenditure Statement Debit/(Credit) Current Period (£'000)	Assets current Debit/(Credit) (£'000)	Assets non- current Debit/(Credit) (£'000)	Liabilities current Debit/(Credit) (£'000)	Liabilities non-current Debit/(Credit) (£'000)	Un-useable Reserves (£'000)
To correct the overstatement of business rates appeal provision						
Taxation and no specific grant income	(129)					
Provisions	-			129		
To correct the overstatement of creditors						
Short term creditors				(51)		
Net cost of services	51					
To correct overstatement of pension liability						
Re-measurement of the net defined benefit liability	(51)					
Net cost of services	34					
Other long term liabilities					17	
Adjustments between Funding and Accounting Basis	17					
Pension reserve						(17)
Totals	(78)			78	17	(17)



05 Value for Money



Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We did not identify any significant risks around these criteria.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Annual Statement of Accounts and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have no issues to report.



Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations;

We have no matters to report with regard to the above.



07

Assessment of Control Environment



Assessment of Control Environment

Assessment of control environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We wish to report the following matters:

	Control observation	Management response
1	We identified as part of calculating the bad debt provisions, the council used set percentages to calculate the provision, the rates used were set in prior years and no evidence available that any review has been carried out over its reasonableness, therefore we recommend the process is reviewed to ensure the bad debt provision rates are reviewed and based on the council's experience of actual collection rates.	The Council reviews the percentages used for the bad debt provisions on an annual basis, taking into account factors such as collection rates, repayment agreements and the move to Universal Credit. We are happy to work with external audit to further review these estimates.
2	We identified as part of calculating the business rates appeal provision, the calculation method used was not consistent with our expectations. There was no provision made for appeals with alteration dates of 2018/19 or 2019/20. The appeals with alteration dates were all given a 100% provision rather than being based on experience of success rates. A provision was also made in relation to potential 2017 listing appeals for which there is no obligation as at 31/03/2017, we recommend the Council reviews the process of calculating the business rates appeal provision, ensuring the provision is based on obligation as at 31/03/2017 and estimated success rates of appeals.	We have agreed to review this opinion on the provision for next year as more information becomes available. We are comfortable that the estimates used this year are adequate for the purpose.
3	We identified the revaluation records for HRA assets are not maintained on an individual asset basis, which lead to a £27m adjustment and prior period adjustment in 2016/17. We recommended the Council carries out an exercise to split the revaluation reserve by property to enable yearly upward/downward revaluations to be appropriately recognised in accordance with the Code of Audit Practice, and that this analysis be maintained going forward.	We have previously agreed to consider splitting the revaluation reserve by beacon categories. We are in the process of talking to external valuers to enable this going forward.

A close-up photograph of a person's hand sorting through a filing cabinet. The hand is reaching into a drawer filled with numerous manila-colored folders, each containing stacks of papers. The background shows the metal shelves of the cabinet.





08 Appendices



Appendix A

Required communications with the Governance Committee

There are certain communications that we must provide to the Governance Committees of UK clients. We have done this by:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	7 February 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> • Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process 	19 September 2017 Audit Results Report
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Melton Borough Council's ability to continue for the 12 months from the date of our report]
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing 	19 September 2017 Audit Results Report



Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the Governance Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Governance Committee responsibility. 	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit
Related parties	<p>Significant matters arising during the audit in connection with the Council’s related parties including, where applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters to report
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the Governance Committee whether any subsequent events have occurred that might affect the financial statements. 	We have asked management and those charged with governance. We have no matters to report
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	19 September 2017 Audit Results Report
External confirmations	<ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations]
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on “tipping off” ▶ Asking the Governance Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Governance Committee. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	19 September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm's general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	7 February 2017 Audit Plan 26 September 2017 Audit Results Report
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	7 February 2017 Audit Plan 19 September 2017 Audit Results Report
Certification work	Summary of certification work	Certification Report



Appendix B

Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 14 March 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Governance Committee on 26 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.



Description	Planned 2016/17 Fee	Final fee for 2016/17
Opinion Audit and VFM Conclusion	£43,169	TBC
Certification of Claims and Return	£13,845	TBC



Appendix C

Accounting and regulatory update

The following table provides the Governance Committee with an update on new accounting standards and interpretations have been issued and a high level summary of those that have the potential to have the most significant impact on the Council:

Name	Summary of key measures 	Impact on Melton Borough Council 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured • How the impairment of financial assets are calculated • Financial hedge accounting • The disclosure requirements for financial assets. <p>• Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Remeasure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>



Appendix C

Accounting and regulatory update (continued)

<p><i>IFRS 15 Revenue from Contracts with Customers</i></p>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none">• Leases;• Financial instruments;• Insurance contracts; and• for local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <ul style="list-style-type: none">• There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none">• Disaggregate revenue into appropriate categories• Identify relevant performance obligations and allocate income to each• Summarise significant judgements <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>
<p><i>IFRS 16 Leases</i></p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council has yet to commence work in this area due to the timing of implementation.</p>



Appendix C

Earlier deadline for production and audit of the financial statements from 2017/18

- The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.

These changes provide challenges for both the preparers and the auditors of the financial statements.

To prepare for this change the Council is planning to undertake a number of steps as outlined below: They have already critically reviewed and amended the closedown process to achieve draft accounts production by 31st May 2017 for 2016/17

- Streamlined the Statement of Accounts removing all non-material disclosure notes
- Brought forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations
- Provided training to departmental finance staff regarding the requirements and implications of earlier closedown
- Re-ordered tasks from year-end to monthly/quarterly timing, reducing year-end pressure
- Established and agreed working materiality amounts with auditor

As auditors, nationally we have:

- Issued a thought piece on early closedown
- As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales
- Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017

Locally we have:

- Had regular discussions through the year on the Council's proposals to bring forward the closedown timetable



Appendix C

We will together with the Council agree areas for early work which have included testing of major income and expenditure streams, reviewing calculation and allocation of depreciation charges, discussing and agreeing material estimation procedures.



Management representation letter

Management Rep Letter

Ernst & Young
1 Colmore Square
Birmingham
B4 6HQ

This letter of representations is provided in connection with your audit of the financial statements of Melton Borough Council ("the Council") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Melton Borough Council as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error



Appendix D

Management Rep Letter

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule (page 23), accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to our attention by the auditor because we do not believe that they are material. More specifically;
1. This was an error identified by the auditors of the Leicestershire Pension fund on an amount entirely outside of this Council's control. Due to the lateness of this identification and the impact affecting both sides of the balance sheet only, and so not the cost of services, no adjustment was made.
 2. This was an error caused by the difference in estimate of early retirements to actuals. Due to the impact affecting both side of the balance sheet only, and so not the cost of services, no adjustment was made.
 3. We have agreed to review this opinion on the provision for next year as more information becomes available. We are comfortable that the estimates used this year are adequate for the purpose.
 4. The £51k is, as noted, a projected amount rather than a fully quantified figure, therefore an adjustment would be inappropriate.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meetings.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements



Appendix D

Management Rep Letter

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. Other than matters described in Note 35 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report by the Director of People and Finance and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Additional representations

Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Reserves

We have properly recorded or disclosed in the financial statements the useable and unusable reserves.



Appendix D

Management Rep Letter

Use of the Work of a Specialist

We agree with the findings of the following specialists that we engaged:

Hymans Robertson	Fair value of the pension scheme assets and liabilities
ANALYSE Local	Value of the provision for National Non-Domestic Rates appeals
District Valuation Office and Innes England	Fair value of the Council's property, plant and equipment

We agree with the findings of the specialists, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the council's financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Comparative information – corresponding financial statements

Restatement of un-useable reserves and the comprehensive income and expenditure statement

1. The accounts have been restated to correctly account for revaluations, the impact of the correction is to restate the comprehensive income and expenditure statement, revaluation reserve and capital adjustment account by £27m, the impact to the 2016/17 comprehensive income and expenditure statement was £17.2m

Restatement of the comprehensive income and expenditure statement

1. There have been changes to the structure of the financial statements during 2016-17 with the introduction of the Expenditure and Funding Analysis (EFA). The 2015-16 financial statement comparatives have been restated to incorporate these changes.

2. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

3. There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the financial statements for the year ended 31 March 2017 are solely the result of reclassifications for comparative purposes.

Yours faithfully,

Corporate Director

Chair of the Governance Committee

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